IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF TEXAS ABILENE DIVISION

§	
§	
§	
§	
§	
§	
§	
§	
§	
§	Case No. 1:07-cv-0178
§	
§	
§	
§	
§	
§	
§	
§	
§	

PLAINTIFFS' FIRST AMENDED COMPLAINT

TO THE HONORABLE UNITED STATES DISTRICT JUDGE:

Mike Williams, Individually and as Managing Member of Industrial Environmental Services, LLC (an Oklahoma LLC); and Industrial Environmental Services, LLC (an Oklahoma LLC), Plaintiffs, complain of Daniel H. Wilks, Farris Wilks, William Barker, and Franklin Autry, all Individually and as members of World Investment Group LLC (a Delaware LLC); and World Investment Group LLC (a Delaware LLC), showing the Court as follows:

I. PARTIES

- 1. **Plaintiffs.** Plaintiffs are:
- a. **Industrial Environmental Services, LLC**, hereafter referred to as "**Industrial Environmental**," is an Oklahoma Limited Liability Company, with its principal office and place of business in Norman, Cleveland County, Oklahoma.
- b. **Michael E. Williams**, Individually and as Managing Member of **Industrial Environmental**, hereafter referred to as "Williams," is an individual who resides in Cleveland County, Oklahoma.
 - c. Plaintiffs will be collectively referred to herein as "**Plaintiffs**."

2. **Defendants. Defendants** are:

- a. **World Investment Group LLC**, hereafter referred to as "**World**," is a Delaware limited liability company, with its principal offices in Eastland County, Texas. If necessary, **World** may be served with process by serving the person in charge of its Texas office, Daniel H. Wilks, at 425 County Road 168, Cisco, Texas 76437.
- b. **Daniel H. Wilks**, hereafter referred to as "**Daniel Wilks**," individually and as a member of **World. Daniel Wilks** is an individual who resides in Eastland County, Texas. If necessary, **Daniel Wilks** may be served with process at 425 County Road 168, Cisco, Texas 76437.
- c. **Farris Wilks**, hereafter referred to as "**Farris Wilks**," individually and as a member of **World. Farris Wilks** is an individual who resides in Eastland County, Texas. If necessary, **Farris Wilks** may be served with process at 2511 County Road 169, Cisco, Texas 76437.

- d. **William Barker**, hereafter referred to as "**Barker**," individually and as a member of **World. Barker** is an individual who resides in Tarrant County, Texas. If necessary, **Barker** may be served with process at the Frac-Tech office, located at 4150 International Plaza, Fort Worth, Texas 76109.
- e. **Franklin Autry**, hereafter referred to as "**Autry**," individually and as a member of **World. Autry** is an individual who resides in Tarrant County, Texas. If necessary, **Autry** may be served with process at the Frac-Tech office, located at 4150 International Plaza, Fort Worth, Texas 76109.
- f. Individual Defendants will be collectively referred to as "Individual Defendants." All Defendants will be collectively referred to as "Defendants."

II. JURISDICTION

- 3. **Subject Matter Jurisdiction**. This Court has diversity jurisdiction under 28 U.S.C. § 1332(a)(1). The amount in controversy is in excess of \$75,000, and there is complete diversity of citizenship.`
- 4. **Personal Jurisdiction**. All or a substantial part of the acts complained of occurred within the Northern District of Texas. This Court has in personam jurisdiction over **World** because **World** purposefully availed itself of the privilege of conducting business activities in Texas by soliciting **Plaintiffs**, within the Northern District of Texas, to sell their certain ownership interests upon which this suit is based, and did enter into contract with **Plaintiffs** in the District. **World** has also engaged in continuous and systematic business in Texas. The Court has in personam jurisdiction over all **Individual Defendants** because they are individuals who reside in Texas.

III. VENUE

5. **Northern District of Texas**. Venue is proper in the Northern District of Texas because a substantial portion of the actions upon which the action is based occurred within Eastland County and possibly other counties within the Northern District of Texas.

IV. FACTUAL ALLEGATIONS

- 6. In or about 1992, Williams founded the predecessor entity to Industrial Compounding LLC ("Industrial Compounding"), a chemical compounding firm in Chickasha, Grady County, Oklahoma. The entity was converted to an Oklahoma limited liability company in or about 2005. Williams and his wife were the sole members and owners of Industrial Compounding, until it was transferred to Chem Source in 2006.
- 7. In or about 2002, Williams founded Industrial Environmental Services, LLC ("Industrial Environmental"), an Oklahoma limited liability company. Williams is the managing member of Industrial Environmental.
- 8. In or about August 2004, Williams, Joe Jacobi ("Jacobi"), Daniel Wilks, Farris Wilks, Barker, and Autry, agreed to form Chem Source, LLC ("Chem Source"). Chem Source is a Nevada limited liability company, to be organized and exist under the laws of Nevada, and was established to sell industrial chemicals primarily to energy-related industries. Under the agreement, Williams owned 17% of Chem Source through Industrial Environmental; Jacobi owned 17% of Chem Source; and Daniel Wilks, Farris Wilks, Barker, and Autry combined to own the remaining 66% of Chem Source through World.
- 9. **Williams**, individually and through his ownership of **Industrial Compounding**, furnished a significant portion of the cash, equipment, inventory, and expertise from the inception

of Chem Source forward. Sometime after its formation, Daniel Wilks took control of the decision-making, management, and financial affairs of Chem Source, and became manager or *de facto* manager of Chem Source. One of Chem Source's largest customers was Frac-Tech Services, LTD ("Frac-Tech"), an entity either owned or controlled by Daniel Wilks and the other individual defendants. Frac-Tech failed to promptly pay substantial amounts of accounts payable for goods received from Chem Source, starving Chem Source for cash, and threatening its solvency. Williams, individually and through Industrial Compounding, was forced to advance his own cash, inventory, and other assets to keep Chem Source in business. Despite significant paper profits, Chem Source, because of Daniel Wilk's actions, was unable to distribute rightful profits to Williams. Chem Source was, in effect, being used to finance the operation of Frac-Tech, to the damage of Williams and other Chem-Source owners who had no similar interest in Frac-Tech.

- 10. In late 2006, Williams began discussions to sell Industrial Compounding to Chem Source. Such sale was consummated in or about March 2006, and Industrial Compounding became a fully-owned part of Chem Source. As an inducement to enter into the transaction, Daniel Wilks represented to Williams that regular distributions of profit would be made to all the Chem Source member/owners. Unknown to Williams, at that time or shortly thereafter, Defendants began plans and discussions to obtain Williams' interests in Industrial Compounding and Chem Source, by the fraudulent means described below.
- 11. **Daniel Wilks** continued to maintain control over the management and financial decision-making of **Chem Source**. **Chem Source** became a very successful marketer of industrial chemicals. However, because of **Frac-Tech's** refusal to promptly pay accounts payable to **Chem Source**, and because of **Daniel Wilk's** use of **Chem Source** as a financial vehicle to benefit **Frac-**

Tech, Chem Source failed to make timely distribution of profits to **Williams** as had been represented by **Daniel Wilks**, and was further unable to generate new capital for the growth of **Chem Source**. **Daniel Wilks**, however, continued to represent to **Plaintiffs** that **Frac Tech** was presently unable to pay, but that all amounts accrued would be fully paid.

- Source by Frac Tech, it was critical to Chem Source's that its members all sell part of their interest to an incoming member that could inject new capital and other assets into the business. Daniel Wilks continued to assure Williams that he was acting in good faith and that all accounts would be settled. Williams relied upon and believed Daniel Wilks. In August, 2006, Williams specifically inquired to Daniel Wilks as to whether it would be possible to sell a partial interest in Chem Source to such a third-party in order to obtain more capital for its continued operation and growth.
- 13. In response to **William's** specific request, **Daniel Wilks** represented to **Williams** that, although he had considered and attempted to obtain a new partial owner, such efforts had been unsuccessful, and that he had given up on the idea because it was not feasible. **Daniel Wilks** specifically represented to **Williams** that there would be no partial sale, either directly or indirectly, to any third-party.
- 14. Unknown to Williams and Industrial Environmental at the time of the agreement and transfer of their Chem Source and Industrial Compounding interests to World, was that Defendants had been in secret negotiations for several months with Chesapeake Energy Corporation ("Chesapeake"), or a Chesapeake-related entity, for Chesapeake to acquire an interest, either directly or indirectly, in Chem Source and Industrial Compounding for a substantial amount of cash and other consideration. The "Chesapeake opportunity" would greatly

and materially enhance the value of **Chem Source** and **Industrial Compounding** by expanding **Chem Source's** markets, business opportunities, and by injecting new capital into the business, and by providing significant cash to its current owners.

- Daniel Wilks, and the other **Defendants** participated in, engineered, and were very much aware of the "Chesapeake opportunity" for the several months leading up to and including August, 2006. Although under a duty to disclose the "Chesapeake opportunity" to Williams and **Industrial Environmental**, **Defendants** failed to do so. In fact **Daniel Wilks** specifically represented to **Williams** that there would be no sale or transfer of **Chem Source** or **Industrial Compounding** to a third party, and denied that there were any ongoing negotiations. **Williams** was unaware of the "Chesapeake opportunity," and had no way to learn of it.
- 16. Within a matter of only days after Williams and Industrial Environmental were induced by Defendants' silence and affirmative misrepresentations to transfer their interests in Chem Source and Industrial Compounding to World, Defendants, through a rather complex and premeditated transactional maze, consummated the "Chesapeake opportunity," by closing the sale of a portion of the effective ownership of Chem Source and Industrial Compounding to Chesapeake, resulting in substantial immediate and long-term financial gain for Defendants to Plaintiffs' detriment.

V. ALLEGATION OF AGENCY RELATIONSHIP

17. **Agency**. At relevant times, **Daniel Wilks**, **Farris Wilks**, **Barker**, or **Autry** did or performed acts or failures to act, both in their individual capacity, and at times as agents for and on behalf of some or all **Defendants**.

18. Whenever it is alleged herein that **Williams** provided or received any communication, it is alleged that he provided or received the communication or act on behalf of himself and **Industrial Environmental**.

VI. COUNT ONE: FRAUD IN THE INDUCEMENT

- 19. **Re-Pleading. Plaintiffs** re-plead the factual allegations contained in Paragraphs 1-18 above.
- 20. **Affirmative Misrepresentation**. **Daniel Wilks**, on behalf on himself and the other **Defendants** affirmatively represented to **Williams** that discussions and negotiations concerning the sale of part interest in **Chem Source** and **Industrial Compounding** had been terminated, and that no sale or transfer would ensue. Other misleading representations were made to **Williams** by Robert Early, who was acting on behalf of **Defendants**.
- 21. **Materiality**. The affirmative misrepresentations concerning the "Chesapeake opportunity," were a substantial, important, and material factor in the valuation of **Plaintiffs**' interests in **Industrial Compounding** and **Chem Source**, and in the decision of **Plaintiffs** to sell or not to sell their interests in **Industrial Compounding** and **Chem Source**.
- 22. **Falsity**. The representations made by and on behalf of **Defendants** to **Plaintiffs** were false at the time they were made.
- 23. **Intent to Rely. Defendants** intended that **Plaintiffs** rely on the false statement of material fact in an effort to induce **Plaintiffs** to rely thereon to their detriment.
- 24. **Reliance**. **Plaintiffs** specifically relied on **Defendants**' false statements of material facts, by making a decision to sell their interests in **Industrial Compounding** and **Chem Source**, a decision that they would not otherwise have made.

25. **Injury**. **Plaintiffs**' reliance on the false information communicated to them by **Defendants** caused injury to **Plaintiffs**, as hereinafter alleged.

VII. COUNT TWO: FRAUDULENT NON-DISCLOSURE

- 26. **Re-Pleading. Plaintiffs** re-plead the factual allegations contained in Paragraphs 1-25 above.
- Source with **Defendants**, and because **Defendants Daniel Wilks** and **World** had assumed the role of managing member of **Chem Source**, and because of their history of business relationship, business dealings, and personal relationship, there existed a fiduciary or special relationship between **Plaintiffs** and **Defendants**, which imposed a duty upon **Defendants** to disclose all material information regarding the "Chesapeake opportunity" to **Plaintiffs**.
- 28. **Partial, Incomplete, or Misleading Disclosure**. In addition, a duty was imposed upon **Defendants** to disclose all material facts regarding the "Chesapeake opportunity," because of a partial, incomplete, or misleading disclosure by **Defendants** to **Plaintiffs** that reasonably created a false impression upon **Plaintiffs**. Specifically, **Daniel Wilks**, on behalf of the other **Defendants**, represented to **Williams** that although a possible sale of a portion of **Chem Source** to an energy company had been investigated, the idea had been abandoned. Even if the representation was true when made, **Daniel Wilks** had an affirmative duty to disclose new information which made a prior representation misleading or untrue.
- 29. **Duty to Disclose**. Plaintiffs and Defendants had developed a close business and personal relationship over their course of dealing. In addition, Defendant Daniel Wilks had become manger or *de facto* manager of **Chem Source** in the months preceding the Chesapeake transaction,

and was in control of financial matters. **Defendants** and **Plaintiffs** were in a closely-held business together, and **Plaintiffs** held a minority interest. Thus, because of the structural relationship between the parties, **Defendants** owed **Plaintiffs** a duty to disclose all material facts regarding the transaction. Furthermore, because of the personal, special and fiduciary relationship existing from **Defendants** to **Plaintiffs**, and because of any partial or incomplete disclosure that might have occurred, **Defendants** had an affirmative duty to disclose to **Plaintiffs** the existence and all pertinent information regarding the "Chesapeake opportunity."

- 30. **Failure to Disclose**. Despite the duty to disclose, **Defendants** failed to disclose to **Plaintiffs** the existence of the "Chesapeake opportunity" at or before the time they acquired **Plaintiffs**' interests in **Industrial Compounding** and **Chem Source**. Such silence was deliberate.
- 31. **Materiality**. The existence of the "Chesapeake opportunity," was a substantial and material factor in the value of **Plaintiffs**' interests in **Industrial Compounding** and **Chem Source**, and in the decision of **Plaintiffs** to sell or not to sell their interest in **Industrial Compounding** and **Chem Source**.
- 32. **Defendants' Knowledge**. At the time of purchasing **Plaintiffs'** interests, **Defendants** knew that **Plaintiffs** (1) were not aware of the "Chesapeake opportunity," and (2) did not have an equal opportunity to discover the existence of the "Chesapeake opportunity."
- 33. **Deliberate Silence**. **Defendants** deliberately failed to disclose the "Chesapeake opportunity" to **Plaintiffs** prior to and at the time they acquired **Plaintiffs**' interest for the express purpose of inducing **Plaintiffs** to enter into the transactions.
- 34. **Intent to Rely. Defendants** intended that **Plaintiffs** rely on the omission or concealment.

- 35. **Reliance**. To the extent necessary, **Plaintiffs** relied on the omission or concealment of the material information as an inducement to enter into the transaction.
- 36. **Injury**. The nondisclosure of such information caused injury to **Plaintiffs**, as hereinafter alleged.

VIII. COUNT THREE: STATUTORY FRAUD

- 37. **Re-Pleading. Plaintiffs** re-plead the factual allegations contained in Paragraphs 1-36 above.
- 38. **Statutory Fraud**. **Plaintiffs** seek recovery under TEX. BUS & COMM. CODE § 27.01, and would show that (1) **Defendants** made the false representations of existing material facts as described above; (2) that such representations were made for the purpose of inducing **Plaintiffs** to enter into the contract to sell their interests in **Chem Source** and **Industrial Compounding**; (3) that such false statements were relied upon by Plaintiffs in entering into the contract to sell. **Plaintiffs** seek all damages allowed by § 27.01; and (4) that such statements were a proximate and producing cause of damages to **Plaintiffs** as alleged herein. **Plaintiffs** seek all relief allowed by § 27.01. Alternatively, **Plaintiffs** would show that one or more of the **Defendants** (1) had actual awareness that other defendant's representations were false, (2) did not disclose to **Plaintiffs** that the representations were false, and (3) benefitted from the false representations.

IX. COUNT FOUR: CONSPIRACY TO DEFRAUD

- 39. **Re-Pleading. Plaintiffs** re-plead the factual allegations contained in Paragraphs 1-38 above.
- 40. **Combination**. Each of the individual **Defendants** combined together in a conspiracy to defraud **Plaintiffs**, and to use **World** and possibly other entities as vehicles to defraud **Plaintiffs**.

- 41. **Unlawful Objective. Defendants** had as their objective the acquisition of **Plaintiffs**' interests in **Industrial Compounding** and **Chem Source** for a less-than-market value by making the false and misleading representations described above, and further by failing to disclose certain material information regarding the "Chesapeake opportunity."
- 42. **Meeting of the Minds**. Each of the **Defendants** had a meeting of the minds concerning the object of their conspiracy.
- 43. **Overt Acts**. At least one of the conspirators committed an overt act in furtherance of the conspiracy. Specifically, one or more of the conspirators made a false representation of material fact to **Plaintiffs** regarding the "Chesapeake opportunity," and one or more of the **Defendants** failed to disclose material information regarding the "Chesapeake opportunity" to **Plaintiffs** prior to the acquisition of **Plaintiffs**' interests.
- 44. **Injury**. **Defendants**' conspiracy to defraud caused injury to **Plaintiffs**, as hereinafter alleged.

X. COUNT FIVE: BREACH OF FIDUCIARY AND OTHER DUTIES

- 45. **Re-Pleading**. **Plaintiffs** re-plead the factual allegations contained in Paragraphs 1-44 above.
- Source with Defendants, and because Defendants Daniel Wilks and World had assumed the role of managing member of Chem Source and control of its financial affairs, and because of their history of business dealings and personal relationship, there existed a fiduciary or special relationship between Plaintiffs and Defendants, which imposed a duty upon Defendants to timely and correctly disclose all material information regarding the "Chesapeake opportunity" to Plaintiffs.

- 47. **Breach of Duty of Loyalty and Utmost Good Faith. Defendants** owed the duties of loyalty and utmost good faith to **Plaintiffs. Defendants** breached this duty by failing to disclose to **Plaintiffs** all material facts regarding the "Chesapeake opportunity," and by attempting to acquire and acquiring **Plaintiffs**' interests without such material disclosures.
- 48. **Breach of Duty to Refrain From Self-Dealing. Defendants** owed **Plaintiffs** the duty to refrain from self-dealing. However, both before and leading to the sale of **Plaintiffs**' interests to **Defendants**, **Defendants** continually self-dealt to the detriment of **Plaintiffs**.
- 49. **Breach of Duty of Full Disclosure**. **Defendants** owed **Plaintiffs** the duty of full disclosure of all material facts. **Defendants** breached this duty by failing to fully disclose all material facts regarding the "Chesapeake transaction" to **Plaintiffs**.
- 50. **Breach of Duty of Fair, Honest Dealing**. **Defendants** owed **Plaintiffs** the duty of fair and honest dealing. **Defendants** breached such duty by failing to disclose to **Plaintiffs** all material facts regarding the "Chesapeake opportunity."
- 51. **Damage.** As further alleged herein, the aforesaid breaches of duties by **Defendants** was a proximate and producing cause of damage to **Plaintiffs**.

XI. COUNT SIX: BENEFICIARIES OF THE FRAUD AND BREACH

52. **All Defendants Beneficiaries of Fraud.** Each of the **Defendants** was a beneficiary of the fraud and breach of fiduciary duty, who benefitted from the wrongful acts, and had knowledge of such acts. Therefore, each is liable as a beneficiary of the fraud.

XII. COUNT SEVEN: NEGLIGENT MISREPRESENTATION

53. **Negligent Misrepresentation**. In the alternative, and without waiving the foregoing, Plaintiffs would show that the representations described above constitute, at the least, negligent

misrepresentation, and that (1) Defendants made a representation to Plaintiffs in the course of a business transaction in which Defendants had a pecuniary interest; (2) Defendants supplied false information to Plaintiffs for use in connection with the transaction; (3) Defendants dis not exercise reasonable care in obtaining or communicating the information; and (4) Plaintiffs suffered pecuniary loss as a direct result of justifiably relying on the representation.

XII. COUNT EIGHT: BREACH OF CONTRACT

54. **Breach of Contract. Defendants** continually breached the formation agreement of **Chem Source** by self-dealing, failure to provide a truthful and adequate accounting, and by failing to make reasonable disbursements of profit, all to **Plaintiffs**' damage.

XIII. CAUSATION

55. **Proximate and/or Producing Cause**. Each of the acts and omissions by **Defendants** alleged was a proximate and/or producing cause of injury and damages to **Plaintiffs**.

XIV. CONDITIONS PRECEDENT

56. **Conditions Precedent**. Pursuant to FED. R. CIV. P. 9(c), **Plaintiffs** allege that all conditions precedent have been performed or have occurred.

XV. DAMAGES

57. **Actual Damages**. **Plaintiffs** seek the difference between the amount they were paid for their interests in **Chem Source** and **Industrial Compounding**, and the actual value of those interests at the time they sold their interests to **World**, in light of all facts relative to the "Chesapeake opportunity," or any other reasonable measure of damages that adequately compensates them for their losses caused by the fraud alleged above.

- 58. **Exemplary Damages**. Based upon the clear and convincing evidence of **Defendants**' commission of fraud and breach of fiduciary and other duties, **Plaintiffs** seek exemplary damages under, but not limited to, Tex. Civ. Prac. & Rem. Code, § 41.003(a)(1).
- 59. **Pre-Judgment Interest. Plaintiffs** seek all pre-judgment interest to which they are entitled at the highest lawful rate.
- 60. **Post-Judgment Interest. Plaintiffs** seek post-judgment interest at the highest lawful rate.
 - 61. **Costs of Court. Plaintiffs** seek recovery for costs of court.
- 62. **Joint and Several Liability**. **Defendants** are jointly and severally liable for all damages alleged herein.

XVI. ATTORNEYS FEES

63. **Attorneys Fees. Plaintiffs** seek reasonable and necessary attorneys fees for the prosecution of their action under breach of contract.

XVII. JURY DEMAND

64. **Jury.** Plaintiffs demand trial by jury.

CONCLUSION AND PRAYER

Plaintiffs pray that **Defendants** be cited to appear herein, and that upon final hearing, **Plaintiffs** have judgment, jointly and severally, against all **Defendants** for all amounts alleged herein, together with attorneys fees, costs of court, and all lawful pre-judgment and post-judgment interest to which they are entitled, and for general relief.

Respectfully submitted,

/s/ John Smithee

John Smithee

Texas State Bar No. 18768800

john@templetonsmithee.com

Brian P. Heinrich

Texas State Bar No. 09382320

brian@templetonsmithee.com

David M. Russell

Texas State Bar No. 17409300

david@templetonsmithee.com

TEMPLETON, SMITHEE, HAYES, HEINRICH & RUSSELL, L.L.P.

320 S. Polk, Suite 1000, Lobby Box 5 (79101)

P. O. Box 15010 (79105)

Amarillo, Texas

806 - 324 - 0324 - Telephone

806-379-8568 - Facsimile

ATTORNEYS FOR PLAINTIFFS

CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the above and foregoing instrument was served upon counsel of record this 29th day of February, 2008, addressed as follows:

Mr. Marshall Searcy, Jr.	Certified Mail, Return Receipt Requested	
Mr. Derek Anderson	United States Regular Mail	
KELLY HART & HALLMAN, LLP	Overnight Mail	
201 Main Street, Suite 2500	Via Facsimile Transmission	
Fort Worth, Texas 76102	Via Hand-Delivery	
Attorneys for Daniel H. Wilks,	Via Electronic Service	
Farris Wilks, William Barker, World	Via Electronic Service	
Investment Group LLC		

Mr. Walker C. Friedman 604 East 4 th Street, Suite 200 Fort Worth, Texas 76102 Attorneys for Franklin Autry	Certified Mail, Return Receipt Requested United States Regular Mail Overnight Mail Via Facsimile Transmission Via Hand-Delivery Via Electronic Service	
Mr. William A. Hicks Ms. Sharon E. Hicks P. O. Box 1587 Cisco, Texas 76437 Attorneys for Daniel H. Wilks, Farris Wilks, William Barker, World Investment Group LLC	Certified Mail, Return Receipt Requested United States Regular Mail Overnight Mail Via Facsimile Transmission Via Hand-Delivery Via Electronic Service	

<u>/s/</u>	John Smithee

John Smithee